

Message Text

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ACTION EB-08

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DODE-00 DOTE-00 INR-10 NSAE-00 FAA-00 L-03 XMB-02
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R 210837Z JUL 78

FM AMCONSUL ZAGREB

TO SECSTATE WASHDC 5372

INFO AMEMBASSY BELGRADE

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DEPT PLEASE PASS EXIM

E.O. 11652: N/A

TAGS: EAIR, YO

SUBJECT: PAN ADRIA MAY BE NEARING LIQUIDATION

REF: ZAGREB 126

SUMMARY: PAN ADRIA, CROATIA'S MOSTLY NON-FLYING AIRLINE, MAY BE IN FOR "LIQUIDATION" AND RECONSTITUTION UNDER NEW NAME. PAN ADRIA'S FUTURE BEING DECIDED CURRENTLY BY CROATIAN GOVERNMENT. NEWEST MANAGEMENT IDENTIFIES PAST PROBLEMS AS POOR MANAGEMENT, SHORTAGE OF SPARE PARTS, OVERSTAFFING AND LOW INTERNAL TICKET PRICES. MANAGEMENT PLANS FOR PAN ADRIA OR SUCCESSOR COMPANY TO PURCHASE UP TO FIVE 737S FOR INTERNATIONAL FLIGHTS. TWO FH-227S ACTUALLY AIRBORNE AND A THIRD NEARLY READY. THE FOURTH HAS BEEN REPAIRED, BUT PAN ADRIA CANNOT PAY FOR THE WORK. MANAGEMENT ASSERTS THAT INSURANCE PROCEEDS FROM FIFTH PLANE (WRECKED IN 1977) HAS BEEN PAID TO EXIM. END SUMMARY.

1. FOR SEVERAL YEARS, SUCCEEDING DIRECTORS OF PAN ADRIA HAVE BEEN TALKING OF "RECOVERY" PLANS TO PULL CROATIA'S MONEY-LOSING
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AIRLINE OUT OF ITS DIFFICULTIES. AS RECENTLY AS TWO MONTHS AGO, THE LOCAL PRESS FEATURED HOPEFUL ARTICLES RE PAN ADRIA. HOWEVER, DESPITE SOME RECENT SURCESS IN GETTING TWO OF ITS FIVE FH-227'S FLYING AGAIN, THE COMPANY'S FINANCIAL POSITION IS NOW VIRTUALLY UNTENABLE. "VJECERNI LIST" OF JULY 12 SPOKE OF THE IMPENDING "LIQUIDATION".

2. IN CONVERSATION WITH CONGEN OFFICER ON JULY 13, THE CURRENT MANAGEMENT TEAM APPEARED UNABLE TO GIVE ANY DEFINITE ANSWERS ABOUT PAN ADRIA'S FUTURE. THEY FREELY SPOKE OF PAST TROUBLES, PRINCIPALLY POOR MANAGEMENT, SHORTAGE OF SPARE PARTS, OVERSTAFFING AND LOW INTERNAL TICKET PRICES. THEY WERE BITTER THAT JUGOBANKA HAD REJECTED EARLIER REQUESTS FOR LOANS FOR SPARE PARTS. THIS HAD FORCED THE 1976 GROUNDING OF THE ENTIRE FLEET, CAUSING THE LOSS OF THE PTT AIRMAIL CONTRACT, THUS ACCELERATING THE COMPANY'S DECLINE. ARTIFICIALLY LOW DOMESTIC FARES HAVE RESULTED IN LOSSES FOR PAN ADRIA WHICH JAT HAS PARTIALLY OVERCOME BY ITS INTERNATIONAL ROUTES WHOSE PRICES ARE NOT CONTROLLED. CREDITS FROM CROATIAN AND ZAGREB GOVERNMENTS HAVE LEFT SIZEABLE DEBT.

3. ACCORDING TO CURRENT DIRECTOR, DOBROSLAV DZEBAD, PAN ADRIA'S FUTURE IS NOW BEING CONSIDERED IN VARIOUS PARTS OF THE CROATIAN GOVERNMENT. DECISION MAY BE MADE AS EARLY AS THE BEGINNING OF AUGUST. ACCORDING TO PAN ADRIA'S TECHNICAL MANAGER GALOVIC, THE GOVERNMENT CANNOT MERELY WRITE OFF THE COMPANY'S DEBTS BUT MUST REQUIRE INSTEAD ITS LIQUIDATION IN ORDER TO END UP WITH A DEBT-FREE AIRLINE. THEREFORE, CROATIA HAS THREE OPTIONS. MOST LIKELY IS "LIQUIDATION" OF PAN ADRIA AND FORMATION OF A "NEW," DEBT-FREE COMPANY BASED ON THE CURRENT STRUCTURE. OTHER OPTIONS WOULD BE TO ALLOW PAN ADRIA TO CONTINUE OPERATIONS AS IS OR TO ABOLISH REPUBLICAN AIRLINE ALTOGETHER. (COMMENT: WITHOUT BEING PRIVY TO CROATIAN GOVERNMENT THINKING, IT SEEMS UNLIKELY LIMITED OFFICIAL USE

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THAT EITHER OPTION TWO OR THREE WOULD BE ADOPTED. PAN ADRIA, AS CURRENTLY CONSTITUTED, WOULD HAVE LITTLE CHANCE OF PULLING OUT OF ITS FINANCIAL DIFFICULTIES ON ITS OWN. IT WOULD CONTINUE TO BE HEAVILY RESTRICTED IN ITS BORROWING ABILITY AND WOULD BE UNABLE TO ACCOMPLISH THE EXPANSION NEEDED TO TAKE ADVANTAGE OF THE MORE PROFITABLE RATE STRUCTURE OF EXTERNAL OPERATIONS. LIKEWISE, TOTAL ABOLITION OF REPUBLICAN AIRLINE WOULD BE A BLOW TO CROATIAN PRIDE AND WOULD NOT SIT WELL HERE. SMALLER NEIGHBORING SLOVENIA HAS SUCCESSFUL AIRLINE. WE HAVE HEARD THAT MACEDONIANS HAVE PURCHASED TWO ANDONOVs AND INTEND TO ACQUIRE YAKS FOR "MACEDONIAN AIR." ALTHOUGH HE LAUGHED AT THE THOUGHT, DZEBA ADMITTED THAT BOSNIANS ALSO CONSIDERING ACQUIRING AIRCRAFT -- TWO DS-9S -- BEFORE WINTER OLYMPICS IN SARAJEVO. BOSNIAN INTENTIONS CONFIRMED BY REGIONAL REPRESENTATIVE OF SECURITY PACIFIC BANK WHO REPORTED THAT ENTERIRIEE "UNIS" WISHES TO BUY FIVE DC-.S. END COMMENT)

4. ACCORDING TO DZEBA, PAN UDRIA HAS ACTUALLY SUCCEEDED IN GETTING TWO OF ITS FIVE FH-227S AIRBORNE AGAIN. HE CLAIMS THAT THEY ARE WELL-UTILIZED (6-7 HOURS PER DAY) ON REGULAR PASSENGER RUNS AND ARE NEARLY ALWAYS FULL. DESTINATIONS INCLUDE: VIENNA, TITOGRAĐ, SKOPJE, BELGRADE, TIRANA, IVANGRAĐ,

MOSTAR AND ADRIATIC CITIES. THE THIRD FH-227 IS READY TO RESUME SERVICE, AWAITING ONLY ITS FINAL AIRWORTHINESS CHECK. THE FOURTH HAS BEEN DISMANTLED FOR REPAIR, BUT PAN ADRIA HAS NO FUNDS TO COMPLETE THE JOB. THE FIFTH FAIRCHILD WAS DAMAGED BEYOND REPAIR IN A 1977 ZAGREB RUNWAY ACCIDENT.

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5. THE LINE'S MANAGEMENT HAS AMBITIOUS PLANS FOR EXPANSION OF PAN ADRIA OR ITS SUCCESSOR COMPANY, INCLUDING ADDING CONSIDERABLE EXTERNAL FLIGHTS ON WHICH PRICES ARE NOT CONTROLLED. THE COMPANY HOPES TO CONVINCE THE CROATIAN GOVERNMENT TO FINANCE THE PURCHASE OF THREE BOEING 737S AND LATER TWO ADDITIONAL ONES FOR CHARTER PASSENGER/CARGO OPERATIONS TO AUSTRIA, ITALY, HUNGARY AND OTHER NEARBY COUNTRIES. NEGOTIATIONS WITH BOEING ARE WELL ADVANCED. WHATEVER FH-227S ARE FLYING WOULD BE USED IN SHORT AND MEDIUM-RANGE INTERNAL OPERATIONS. THE NEW AIRLINE WOULD ALSO RESUME PROFITABLE PTT SERVICES. HOWEVER, WHATEVER THE CROATIAN GOVERNMENT DECIDES, THE PROFITABLE "PRIVREDNA AIRACIJA" DIVISION (CROP-DUSTING) WILL BE SEPARATED INTO AN INDEPENDENT ENTERPRISE.

6. WHEN ASKED, GALOVIC CLAIMED THAT SECURITY PACIFIC BANK AND EXIM HAD BEEN PAID FROM INSURANCE PROCEEDS OF WRECKED FH-227. HOWEVER, THE SECURITY PACIFIC REPRESENTATIVE IS UNAWARE OF INSURANCE MONEY'S HAVING BEEN RECEIVED. GROBEL

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